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Poland.

Ministerstwo Skarbu.

A budget speech

Warsaw

1928

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Through the President's Office

A BUDGET SPEECH

BY

GABRIEL CZECHOWICZ

POLISH MINISTER OF FINANCE

308

Z

Box 212

MINISTRY OF FINANCE, WARSAW

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A BUDGET SPEECH

GABRIEL CIECHOWICZ

MINISTER OF FINANCE

Druk
„Rola”, J. Burjana
w Warszawie.

Gyjt 4
President N. M. Butler
7-14-28

I. THE BUDGET.

The budget for the year 1928/29 presented to the Chamber provides for a gross revenue of 2,525,702,596 zlotys and, for a gross expenditure of 2,478,370,242 zlotys.

I consider it to be my duty to analyse in detail **Revenue.** the income side of the budget, this being the decisive factor as to its practicability.

With this object in view, I am quoting the revenue figures for the last few years, which are as follows:

in 1924 . . .	1,370 million zlotys
in 1925 . . .	1,615 " "
in 1926 . . .	1,906 " "
in 1927 . . .	2,568 " "

It is not possible at this moment to give the exact revenue figure for the budgetary year 1927/28, but I consider, on the basis of the estimates for March of this year, and the receipts for the first eleven months of the year, that it should amount to 2,700 million zlotys.

Owing to currency fluctuations the above mentioned figures are, however, not, absolutely representative of the situation, for this purpose, they should be converted into gold francs and into index francs (expressing the pre-war purchasing power of the gold

francs computed according to the index number of wholesale prices. Basis: 1914 = 100).

Applying this conversion, we obtain the following revenue figures:

for 1924	1,370 million gold francs and 1,211 million index francs
" 1925	1,487 " " " " 1,197 " " "
" 1926	1,113 " " " " 1,118 " " "
" 1927/8	1,570 " " " " 1,390 " " "

On the basis of these figures, we must come to the conclusion that 1927/28 was an exceptionally favourable year, as the aggregate of revenue received considerably exceeded the figures for the preceding three years, whether these be expressed in paper zlotys in gold francs, or in index francs.

These results may be ascribed to the favourable economic conjunctures, which, even more than the assessment of taxation, decide the magnitude of state receipts; a question which will be referred to subsequently. I now desire to consider the various items comprising the revenue side of the budget estimates for 1928/29.

The greater portion of the state revenue is derived from public levies and state monopolies, which together account for Z. 2,094,224,000 of the budget estimates.

This figure is lower than that attained during the calendar year 1927, namely, Z. 2,117,100,000 and is nearly equal to that of the receipts for the first eleven months of the budgetary year 1927/28 (from April 1, 1927 to February 29, 1928), amounting to 2,048,314,461.

The following figures testify to the extreme caution exercised in the preparation of the estimates for the coming financial year:

The receipts from the Industrial Tax are put at only 210 million zlotys, whilst the actual revenue from this source for the first eleven months of the budgetary year 1927/28 amounted to 260 million zlotys.

Customs receipts are estimated at 280 million zlotys as compared with 315 million zlotys for the first eleven months of the budgetary year 1927/28.

The receipts from the Income Tax, have also been estimated at the modest figure of 180 million zlotys. This tax yielded 39 million zlotys in 1924, 62 million zlotys in 1925, 104 million zlotys in 1926, and 157 million zlotys for the first eleven months of 1927/28. Taking into consideration the rate of development of this tax, a much larger yield may be expected from this source, during the coming year.

There can be no doubt that receipts from State monopolies will also exceed the estimates, as was the case during the current year.

On the other hand, we cannot close our eyes to the possibility of the exceptionally favourable circumstances of 1927, changing for the worse, this possibility is indicated by a number of symptoms, which tend to show that we cannot really count in the future, upon such a rapid growth in State revenues.

We shall, however, in any case, have attained a surplus of 35% over the budget estimates for 1927/8.

It is significant that during last year's debates on the budget estimates, both at the plenary session of the Sejm, and in the Budget Commission, the majority of the speakers considered a budget of 1,990 million zlotys to be both inflated and impracticable, the Income Tax and State Monopolies receiving the most criticism.

I believe, Gentlemen, that in the light of the results attained, you will not accuse me of excessive optimism in the preparation of the budget for 1928/29, the total of which is below the actual receipts for the current year.

I also believe that the execution of the revenue estimates will, in practice, yield a considerable surplus which should serve to protect us against all unforeseen eventualities and to guarantee the continued maintenance of a balanced budget.

Expenditure.

The expenditure side of the budget estimates for 1928/29 amounts to 490 million zlotys in excess of the figure accepted by the Legislative Chambers for the 1927/28 Budget.

This considerable increase applies almost exclusively to the group of productive expenses. Thus practical administrative expenditure, so important to domestic industry, has risen by 109 million zlotys; the departmental expenditure of the various ministries has risen by 258 million zlotys, investment outlays, contained in the Administration's budget itself and in additional payments to State enterprises have risen by 58.5 million zlotys, and amount to 160 million zlotys, exclusive of the sum of 88,160,000 zlotys also intended for investment purposes, submitted separately in an Extraordinary State Investments Bill.

Attention should also be given to the fact that the financial program of the State enterprises also shows an increase of 197 million zlotys in investments, 157,000,000 of this being for the State Railways, and 14,000,000 for the Postal and Telegraph investments.

The Budget balance.

The estimated surplus of revenue over expenditure amounts, in round figures, to 47 million zlotys.

This surplus on the one hand, and the modest estimate of revenues on the other, have been dictated by the necessity of maintaining budget equilibrium.

The maintenance of this equilibrium will also undoubtedly be assisted by a more practical estimate of state expenditure, eliminating to a great extent the dangers of supplementary credits.

A balanced budget was only attained by us, after many years of budget deficits, for the first time in the second half of 1926. The budget surplus achieved for the second half-year of 1926 and for the first quarter of 1927, amounted to 181,9 million zlotys. After covering the deficit of the second quarter of 1926, the financial year 1926/27 (from April 1, 1926 to March 31, 1927), was closed with a surplus of 150 million zlotys.

The problem of budget equilibrium.

Every month of the financial year 1927/28 exhibited a surplus of receipts over disbursements, and the working of the budget gave a total surplus of 244.6 million zlotys for the first eleven months of the year.

I can state without the slightest exaggeration that the present Government owes all the financial successes it has attained up to the present, to its firm policy of reaching and maintaining a balanced budget.

In a country such as Poland, which lacks capital; which has still to reconstruct its industries ruined during the War; which has but recently issued from the chaos of currency inflation; and which is moreover menaced by a fluctuating and uncertain trade balance; a balanced budget should constitute, if I may so put it, the backbone of its financial system.

Polish public opinion, for a long time insufficiently interested in financial problems, and understanding

but imperfectly questions of an economic and financial nature, has, after a series of unfortunate experiences, and specially since the crisis of 1925, finally understood the necessity for a cautious and farseeing financial policy.

The same was the case with the legislative bodies, which had so far failed to appraise the importance of a balanced budget, at its full worth, that after the deficit of 1924, at a time when Poland was undergoing the disaster of a harvest failure, the Sejm, in 1925, passed a budget of which the expenditures exceeded by 40% the actual budget receipts of the previous year.

It was only towards the end of 1925, under the pressure of a disquieted public opinion, that the Legislature changed its policy, putting the question of budgetary equilibrium in a foremost place, this resulting in the passing of an Act dealing with, "measures for the assurance of budgetary equilibrium".

The general realisation, since the autumn of 1925, of the supreme importance of an economic budget policy, has facilitated the work of the successive Ministers of Finance, and afforded them the powerful support of public opinion; which has undoubtedly contributed to a very great extent to the improvement in the financial situation.

I cannot, therefore, pass over in silence certain signs of a change in public feeling, — signs all the more dangerous in that they follow from the specific nature of Polish national psychology.

I have in mind in the first place, newspaper articles, which have of late appeared with increasing frequency, imputing that the Minister of Finance is unnec-

essarily collecting revenues in excess of budget estimates; that he is amassing Treasury reserves to the detriment of economic life; that he does not decrease taxation, and so on.

Even persons considering themselves to have a serious voice in financial and economic matters endeavour to teach the Finance Minister that budget surpluses have no place in a properly conducted financial policy, and that the collection of revenues should be adjusted monthly according to the expenses incurred.

At the same time, the Minister is called upon to furnish, apart from the daily increasing budgetary expenses, funds for all those exigencies which arise in our economic life, such as communal investments, land amelioration, building, long-term credits, etc., and all this to an extent many times exceeding our present financial possibilities.

I cannot help seeing in all this the danger of a return to those conditions which existed during the first few years of our independent existence, when miracles were expected of the Finance Ministers, when it was demanded that they collect the minimum of taxes or rather refrain from doing so altogether, while at the same time they were expected to furnish unlimited means for the satisfaction of every requirement.

I consider it to be my duty to state with all possible emphasis, that the revenues of the State are dependent on the general situation; that the duty of the Minister of Finance is to take advantage of favourable conjunctures and to create reserves of money for a future time, when the prospects may have changed and revenues not come up to expectations.

The depreciation of the currency has already lowered the receipts from indirect, and to a certain extent those from direct, taxes.

The favourable conjunctures which have lasted for the past year or more, can in no way be considered as a reason for a reduction in taxation, the more so as State expenditures are growing, and the problem of the improvement of the situation of the state employees remains unsolved.

Treasury
reserves.

Quite fantastic reports are current regarding budget reserves. Certain organs of the press estimate them at a figure well over a milliard zlotys.

I should be greatly satisfied were this really the case.

Unfortunately, I am not a magician and cannot create free reserves exceeding the budgetary economies actually attained.

I shall permit myself to quote figures concerning this point.

On December 31, 1927, the balance of the Treasury's working funds totalled 460 million zlotys.

An important part of the items figuring amongst the assets of the Treasury — totalling over 225 million zlotys — can, from economic and public considerations, only be withdrawn gradually. In this category belong Treasury dotations to the National Economic Bank and to the State Agrarian Bank, loans to local government authorities, and advances on salaries.

If further we take into consideration the fact that the Government has approved and presented to the Sejm a bill for the employment of 88 million zlotys from the Treasury reserves for State investments, and also that the augmentation of the capital of the State

Agrarian Bank by 75 million zlotys has not yet been passed through the books, we cannot but come to the conclusion that there can be no question of the immobilisation by the Minister of Finance of a milliard zloty reserve fund.

Even together with the special reserve of 75,000,000 derived from the American Loan, the Ministry of Finance will have at the Bank of Poland but a relatively modest sum, essential in view of the ever-present possibility of transient financial difficulties.

It is true that the Treasury has at its disposal, apart from budget reserves, considerable sums derived from the Stabilisation Loan; these sums cannot, however, be taken into account, since they are earmarked for a special purpose, viz. that of replacing the remaining Treasury notes by silver coinage (90 million zlotys) and of providing credit support for agriculture and State enterprises (141 million zlotys).

The above data should suffice to dispel unfounded illusions, and to convince even our amateur economists that we may not rest upon our laurels, and, taking no thought for the morrow, proceed to use up the milliard of Treasury reserves said to have been accumulated by the Ministry of Finance.

If the budget situation has improved; if we are in a position to assign larger sums for investment and economic purposes; if we have at our disposal a modest sum of Treasury reserves put away, if I may say so, for a rainy day, we should be gratified with the results so far obtained, and continue with redoubled vigor our task of creating the prosperity of our country.

The civil
service
question.

The results attained with such effort have made their beneficial influence felt by the whole nation, and cannot be allowed to be wasted.

We should not further forget the lot of state employees, whose condition urgently calls for improvement.

As you know, Gentlemen, the present Government has abolished the reductions in the salaries of civil servants introduced by the Act of December 22, 1925, has introduced an increase of 10% in salaries (Act of December 18, 1926) and has further, on the strength of two decrees, dated August 17, 1927 and January 23, 1928 respectively, effected to state employees two extra payments, which together burdened the administrative budget with an expense of 73 million zlotys.

When giving immediate help to state employees by means of these payments, the Government did not lose sight of the necessity for permanent improvement in the living conditions of civil servants, but, not being able to place this upon a conjunctural basis, as being uncertain and unstable, made the fundamental reform of salaries conditional upon the concession by the Legislature of new sources of income for its cover.

The plans for fiscal legislation elaborated by the Ministry of Finance, namely:

1. A permanent Income Tax.
2. An increase in the assessment of Land Taxes.
3. A Building-property Tax.

which will be discussed later, have as their object the securing of a total revenue of 200 million zlotys for the improvement of the living conditions of state employees.

Fiscal
reform.

In accordance with the announcement made by myself to the Sejm on November 13, 1926, the Ministry of Finance had, in the autumn of 1926, already commenced preliminary studies upon fiscal reform and has elaborated a number of new laws in this domain.

I shall mention only the most important of the projects prepared, i. e.

1. a bill dealing with Income Tax, and
2. a bill dealing with the repartition of sources of taxation between the State and local government authorities.

The proposed new scheme for income taxation, based upon the Belgian and French models, entertains the imposition of taxes upon persons by a series of proportional fractional taxes (schedulary taxes) which would refer to each separate item of income, as well as a general complementary progressive tax which would be incident upon the aggregate income of the tax-payer.

The incomes of corporate units, as fixed on the basis of their books, would be taxed according to a uniform percentage without the application of a sliding scale.

The Bill covering the repartition of sources of taxation between the State and local government authorities entertains the cession, to the latter, of tax-receipts (excluding Income tax), such as, the Land Tax, Urban Property Tax and that part of the Industrial Tax collected as payments for industrial licenses, whilst at the same time, communal bodies would lose the right to supplements to the Turnover Tax, to excise duties, to the price of spirits, to a share in the proceeds of the Income Tax, to Alienation Fees and to Death Duties.

The afore-mentioned schemes have been submitted to the consideration of the Financial Council, which in the matter of the Income Tax Bill expressed the opinion that the introduction of a system of fractional (schedulary) taxation into Poland could be realised only on the above lines.

This latter question does not, however, lend itself to immediate solution, in view of the impossibility of fixing the requirements of local government authorities, largely as a result of the lack of systemic and competent legislation on the subject.

For these reasons the Financial Council advised that, without interrupting the work already begun upon the general reform of the whole fiscal system, only the so-called little fiscal reform can be realised for the present, the chief principles of which would be as follows:

1. The regulation of arrears of the Extraordinary Property Tax, hitherto collected according to the Act of August 11, 1923, by the diminution of the contingent and the introduction of a moderate permanent Property Tax, without a sliding scale, in order to fill up the gaps left in the budget by the considerable diminution of the contingent of the Extraordinary Property Tax;

2. The abolition of the present sliding scales, and the substitution of revised ones for the Land Tax, and the revision of the classifications of land.

Being of the same opinion as the Financial Council, I have prepared the requisite projects for taxation legislation, and moreover, for a State building-property Tax for rural districts.

The Rural Building property Tax is projected only as an extremely light tax on dwelling-houses and facto-

ry, commercial and industrial buildings, with the exemption of farm buildings.

This tax should yield about 60 million zlotys, the augmentation of the Land Tax would also bring in about 60 million zlotys, whilst the yield of the permanent Property Tax has been estimated at about 100 million zlotys.

The actual augmentation of Treasury revenues will, after writing off amounts impossible of collection and annulments, amount to about 200 million zlotys per annum.

The Government intends to assign these receipts in their entirety to the improvement of the living conditions of state employees.

Finally, I must devote a few words to that most unpopular of our taxes — the Turnover Tax.

This tax is a post-war product, and has been introduced by nearly all European countries, which have gone through the disease of inflation, such as Germany and Austria, or which required larger means for the consolidation of their national existence, such as Czechoslovakia; in all cases, this tax has been gradually moderated by the lowering of the scale. The Turnover Tax was introduced into Poland in 1923, at a rate of 2% of the turnover, and already half-way through 1925 was greatly moderated by the differentiation and lowering of the scale.

The Government intends still further to moderate this tax in proportion to the augmentation of revenue from other sources, and the Ministry of Finance is now engaged in conducting studies on the eventual reduction of the scale of this tax to 1% for all trading undertakings.

II. THE TRADE BALANCE.

In speaking of Polish Treasury policy, it should not be forgotten that it has two aspects — the budget and that of the currency.

In connexion with this, I cannot dissemble the fears which I entertain as to the way our trade balance is shaping.

The balance of trade showed:

- in 1924, a deficit of 212.8 million gold zlotys (according to the old parity of the zloty);
- in 1925, a deficit of 330.8 million gold zlotys;
- in 1926, a surplus of 409.8 million gold zlotys;
- in 1927, again a deficit which amounted to 221.1 million gold francs, corresponding to 380.6 million zlotys, according to the new parity of the zloty.

It should also be borne in mind that other items of our balance of payments likewise present unfavourable results.

The more favourable shaping of our import trade by increased imports of indispensable raw-materials, semi-manufactured goods, and machinery, coupled with a relative increase in the percentage of non-essentials and articles of luxury, by no means dispels the danger threatening us from that side.

There is a theory that an adverse balance of payments need not presage danger as long as the budget is balanced, since a properly functioning bank of issue is bound, as gold and foreign currencies flow out of the country, to limit its bank-note circulation by credit restriction.

This theory is unsound insofar as, under present conditions, the diminution of monetary circulation and the restriction of credit in a country suffering from a lack of cash and credits, must evoke a serious economic crisis, and create conditions under which the maintenance of a balanced budget would become most difficult, and perhaps even impossible of achievement.

In view of this danger, the Government has been forced to valorise customs duties on the strength of the authorisation it possessed to deal with customs policy.

By a decree of the President of the Republic, dated February 13, 1928, an agio of 30% was applied to the majority of goods listed in the customs tariff; the full valorisation of 72% was applied to luxury articles; at the same time, essential food-stuffs were exempted from valorisation, as were also artificial fertilizers and raw materials necessary for our industries.

This order cannot, however, decide how our foreign trade will shape in the more distant future.

The centre of gravity of the whole question lies in the development of our external expansion, i. e. the growth of our export trade.

A permanent and assured increase of exports is impossible without an increase in production.

III. THE DEVELOPMENT OF PRODUCTION.

The financial prosperity of every country is closely bound up with the development of its economic life.

The year 1927 was exceptionally favourable from the economic point of view.

A considerable growth of production can be perceived in almost every branch of industry, as is borne out by the following data:

Branch of production	1926	1927	Percentage of Increase as compared with 1926
	Absolute values		
Crude iron: in 1000 tons .	327	618	+89%
Cast steel: " " " .	788	1.247	+58%
Pressed and rolled products: in 1000 tons	563	926	+64%
Iron ore: in 1000 tons . .	316	538	+70%
Crude Spelter: in 1000 tons	124	150	+21%
Sheet-zinc: " " " .	9,7	15,6	+61%
Crude lead: " " " .	26,3	29,1	+11%
Coal: in millions of tons. .	35,7	38,1	+ 8%
Potash Salts: in 1000 tons .	180	276	+53%
Cement: " " " .	557	784 ¹⁾	+41%
Sugar: ²⁾ in 1000 quintals .	5.144	5.282	+ 3%
Paper: in 10 ton wagons .	8.837	11.864	+34%

Economic progress is further illustrated by statistics of the movement of shipping in our ports:

1. The traffic of the port of Gdynia in 1927 amounted to 839,000 reg. tons as compared with 413,000 reg. tons in 1926;

¹⁾ Approximate figures.

²⁾ From the beginning of the campaign to January 31 st.: figures in terms of white sugar.

2. The traffic of the port of Danzig totalled 7,832,000 reg. tons in 1927, as against 6,828,000 reg. tons in the previous year.

Railway freights increased greatly and the average daily number of loaded 15 ton wagons in 1927 was 16,200 as against 14,000 in 1926.

The number of workman hours worked in the manufacturing, mining and smelting industries was:

462.5 million in the first half of 1927

552.3 million in the second half of 1927.

This represents a considerable increase over the figures for previous years which were:

First half of 1925 444.3 million

Second " " " 429.7 "

First " " 1926 356.5 "

Second " " " 455.3 "

In connexion with the above, the number of registered unemployed dropped greatly, amounting in December 1927 to 165,000; the figures for the corresponding months in 1926 and 1925 having been 190,000 and 251,000 respectively.

We should exert every effort, not merely to maintain this favourable state of affairs, but to further continue to make fresh progress.

Upon what is it that our rate of progress in the field of economic endeavour depends?

Poland is endowed with greater natural resources than many Western European countries, we have at our disposal an excess of labour, we possess a sufficiently numerous professionally trained educated class. We lack but one factor, and that is capital.

From the point of view of financial resources, we occupy, unfortunately, one of the last places in Europe. We continue to pass through a period of money-famine.

Poland possesses scarcely 28 gold francs per head of population, whilst in 1927 the corresponding figure for the United States was 118 gold francs per head, for England 213 gold francs, for Czechoslovakia 81 gold francs, for Germany 90 gold francs and for Italy 95 gold francs.

It follows from this, that a predominant place in our financial and economic policy must be given to the necessity of accelerating the process of capitalisation and of improving existing credit conditions.

I have therefore given very careful consideration to this problem.

IV. THE PROBLEM OF CREDITS.

Internal
credit
policy.

During my tenure of office, legislation covering both banking and credit policies has been regulated, and a more effective supervision of banking operations introduced.

The reform of private banking conditions has been carried out within the limits outlined by the Sejm.

The issued capitals of the state banks have been increased, that of the National Economic Bank by 85 million zlotys to a total of 120 million zlotys, and that of the State Agrarian Bank by 75 million zlotys to a total of 100 million zlotys.

Attaching special importance to agricultural production, I have elaborated a plan for wider credit facilities for agriculture, in particular in the form of

medium-term loans for small-holders, and for purposes of land amelioration.

Long-term loans will be granted, through the intermediary of communal savings banks and credit co-operative societies, for the purchase of live-stock and equipment, agricultural tools and for the payment of burdensome debts.

The land amelioration loans scheme is based on the issue of "Amelioration bonds" by the State Agrarian Bank and the balancing, by means of an allocation, from the budget funds, of the difference between the actual rate of interest of these bonds, and the reduced rates paid by the borrowers.

This has necessitated an amendment of the State Agrarian Bank Act, which was duly effected by a decree of the President of the Republic.

Legal regulations as to agricultural collateral securities have also been promulgated, which will facilitate the obtaining by farmers of short-term credits against a stock and corn collateral.

Since the rate of our economic development must, at all costs, be accelerated, in view of the consolidation of our organisation as a State, and of the competition of other more industrialised countries, I considered my chief task to be the entering into permanent relations with foreign capital, and to secure the entry of Poland into the world money market.

The Stabili-
sation Loan.

After having taken the necessary measures for the gaining of confidence abroad, and as a result of protracted negotiations, the Stabilisation Loan was arranged in November 1927, through the agency of first-class American banks, for a nominal sum of 72

million dollars. This Loan was based upon the following plan:

- 1) Budget equilibrium to rest upon a firm and durable basis;
- 2) The Government to issue no further loans for ordinary budget purposes for a period of three years;
- 3) The currency to be stabilised *de jure*;
- 4) Treasury notes to be withdrawn from circulation, a half of their value (i. e. a sum of 140 million zlotys), to be replaced by silver coinage.
- 5) The total issue of silver and token coins not to exceed 320 million zlotys;
- 6) The capital of the Bank of Poland to be increased by 50%;
- 7) The statutory cover of the Bank of Poland to be raised to 40% and to apply to all liabilities, both banknotes and deposits;
- 8) A special Treasury reserve to be deposited with the Bank of Poland;

The Ministry of Finance has allocated the following sums from the Loan for the realisation of this plan:

- a) 140 million zlotys for the redemption of a half of the Treasury notes now in circulation.
- b) 90 million zlotys for the purchase of silver.
- c) 75 million zlotys for the increasing of the capital of the Bank of Poland.
- d) 75 million zlotys for the creation of a liquid Treasury reserve in the Bank of Poland.
- e) 25 million zlotys for the redemption of part of the floating debt of the Treasury.

The remainder of the Loan, amounting to 141 million zlotys, has, according to the plan, been assigned for a credit fund for agriculture and for State enterprises.

As you are aware, Gentlemen, the Stabilisation Plan has met with numerous objections.

Critics of the Plan raise the point that only an insignificant portion of the loan is being used for economic purposes, and certain of our financial authorities even go so far as say that the funds allocated to other items are being used unproductively.

They consider that the withdrawal from circulation of Treasury notes is needless and even harmful, and include the increasing of the capital of the Bank of Poland amongst the unnecessary expenses, and so on.

It is also stated that the Loan has not fulfilled the hopes placed in it, — that it has not served as a key-operation assuring the influx of foreign capital into Poland.

Happily, these objections emanate mainly from those circles which had been accustomed to profit from inflationary conjunctures, and which, hoping for the re-establishment of the inflationary paradise, cannot reconcile themselves to a plan which spoils their calculations.

The Stabilisation Plan was the subject of exhaustive discussion, not only in the Cabinet, but also in the Financial Council, and in the Council of the Bank of Poland.

The decisions arrived at are based upon a detailed analysis of our economic conditions.

Criticism
of the
stabilisation
plan.

After the unfortunate experiment of 1924, when we took the risk of introducing a gold currency without sufficient reserves, and without the support of a balanced State budget; and after the resulting severe financial crisis of 1925, which compromised the country, a fact which was all the more painful, in that the civilized world had no definite opinion as to our organising ability; we were obliged to make far-reaching sacrifices in order to dispel the atmosphere of lack of confidence and prejudice which had arisen, chiefly from our own fault.

I was never a supporter of the policy of hastening the legislative stabilisation of the zloty.

I would have preferred that the *de jure* stabilisation of the zloty had been preceded by a longer period of budgetary equilibrium, and of *de facto* stabilisation.

We could not, however, afford to ignore the opinion of foreign finance, which conditioned its co-operation with us upon the carrying out of this reform.

Prof. Kemmerer had already advised the speedy settlement of this question, on condition that the cover of the Bank of Poland be increased at least to 60%.

Immediately it was agreed to take decisive steps towards monetary reform, the Government decided to base the new Polish currency upon as firm and durable foundations as possible.

In the first place the principle was accepted that no banknotes may be in circulation other than those of the bank of issue, and that the Treasury notes issued

by previous Cabinets for budget purposes should therefore be withdrawn.

Treasury notes represent the worst form of a National Debt, and this debt, as being dangerous to national finance, should be paid off.

We could not afford to ignore the experience of 1925, when the Treasury notes were the chief cause of the collapse of our currency.

An expenditure for the regulation of our monetary system cannot be considered to be unproductive if it was necessary in order to gain the confidence of foreign financial circles and if we do not close our eyes to the benefits accruing to our economic life as a result of currency stabilisation.

Other items included in the Stabilisation Plan can *directly* be utilised for productive purposes.

This remark does not only refer to the sum of 141 million zlotys, allocated for credit support of agriculture and State enterprises, but also to other items.

The Government holding of Bank of Poland stock, to a value of 75 million zlotys will, according to the Plan, be sold to the public, and the funds so gained assigned to economic needs.

The creation of a Treasury reserve of 75 million zlotys in the Bank of Poland, will enable a part of the budget economies to be employed for investments in State enterprises.

I have already spoken of the project of the assignment of 88,160,000 zlotys for these investments.

If the influx of foreign capital into Poland has not attained the dimensions expected, the cause of this may be sought elsewhere, but certainly not in the Government Stabilisation Plan.

Apart from the harmful influence of certain events, which temporarily clouded the horizon of our foreign policy towards the end of 1927, we owe this to the Polish specific national ideology, to which I have already referred, and which has led even the most serious institutions to treat the offers of foreign financiers with diffidence, preferring to avoid trouble and considering it to be easier and simpler to apply exclusively to the Ministry of Finance for credit assistance.

I have had to lose considerable time in proving that the state banks cannot be the chief sources of credits, and in particular, that the National Economic Bank cannot be a source of credit for the larger towns.

The state banks have before them a number of other functions for accomplishment.

After long hesitation, the Council of the City of Warsaw has, as you are aware secured an American investment loan for a nominal sum of \$ 10,000,000.

The town of Poznań has also secured in London a loan of £. 500,000 sterling.

Certain of the larger industrial concerns have also received considerable foreign loans.

Loans for the town of Lodz and for Upper Silesia, the latter as an autonomous unit, are also at present under consideration.

The Ministry of Finance is commencing negotiations for the issue of a loan for railway investments with the same group of bankers through whose agency the Stabilisation Loan was received.

At the same time, the ground is being prepared for the placing abroad of large blocks of mortgage bonds,

land-amelioration bonds, and communal bonds of the National Economic Bank.

I attach the greatest importance to the last named operation, i. e. to the gaining of foreign markets for the sale of mortgage and other bonds.

This is essential to the development of our long-term credit system, which cannot be reconstructed from our own resources, as owing to the insufficient capacity of our domestic market; such credits have a most decisive influence upon our agricultural production, which is the basis of our existence.

It can, in any case, be stated that a decisive change has already taken place in the development of our credit conditions, and that Poland, as a State, and as an economic unit, is no longer exposed to the results of credit isolation.

The results attained would undoubtedly be considerably better, and credit conditions more advantageous, had the criticism of the work of the Government, emanating from certain parties, taken into account the actual conditions under which this work has to be done, and not undermined foreign confidence in the Polish State.

I would put one question to the critics:

What would have happened had the Stabilisation Loan been refused, and there were no foreign credits at present filtering into Poland in various forms?

Do they consider that the adverse trade balance would not in that case have exerted its influence?

I can foretell what answer I should receive.

I should be told that the Government should not have allowed an adverse trade balance to supervene.

This is, however, easier to say than to do.

A certain portion of the Press has for several months past been printing, in heavy block type, the figures for the trade balance deficits, has attacked the Government and expressed the most gloomy forebodings.

We may, however, search in vain for any suggestions on the part of the Press as to how to remedy this evil.

I, for my part, consider that our adverse trade balance is due chiefly to a natural tendency towards the reconstruction and improvement of our industry, and that the moderate deficits caused by the economic re-construction of the country, do not constitute a danger, as long as we do not hinder each other in our work and refrain from undermining our credit abroad.

I would in principle be opposed to the valorisation of Customs duties, since the rate of influx into Poland of capital for productive purposes would correspond to our intended investment plans.

In concluding this section dealing with the Stabilisation Plan, I cannot pass over in silence those of its points referring to the "American Financial Adviser".

The admission of an "adviser" into the Council of the Bank of Poland was a condition of the granting of the Stabilisation Loan.

Those who state, however, that the budget and credit policies of Poland have been subjected to the

decisions of a representative of foreign finance are mistaken.

The adviser has the power of "veto", only in questions connected with the use of the funds derived from the Loan; he has the right to see that the allocated funds have in reality been used for the purposes indicated in the Stabilisation Plan.

This cannot be irksome to the Government, which has not any intention of allocating these funds to purposes other than those included in the Plan.

The Government has further bound itself to call for the opinion of the adviser upon foreign loans both for State and local government authorities.

The Government is by no means bound by the opinion expressed by the "adviser".

I shall here permit myself to express my profound belief that co-operation with Mr. Dewey, as the "adviser", will not lead to difficulties or conflicts, but will, even contribute largely to the further favourable development of Polish credit, thanks to his personal qualities and sincere friendship towards us.

A balanced budget coupled with large budget surpluses on the one hand, and the stabilisation of the zloty, based on firm foundations on the other, has caused a regeneration of the savings instinct in our country.

Development of banking operations.

I shall quote a few figures expressing the increase in deposits in our credit institutions:

B a n k	January 1, 1926	January 1, 1928
	in millions of zlotys	
Bank of Poland	49.0	184.3
National Economic Bank	77.1	315.7
State Agrarian Bank	4.9	32.9
Joint Stock banks	332.8	799.5
Postal Savings Bank	65.0	201.0
Total	528.8	1,533.4

We note therefore that the volume of deposits has grown threefold during the past two years.

This has led to the gradual lowering of the discount rate of the Bank of Poland from 12% to 8%, and of that of private banks from 24% to 12%.

Although we are still far from ideal conditions, and the discount rate in Poland is considerably higher than in other civilized countries, the results attained constitute nevertheless an invaluable benefit to our economic life.

The growth in credits granted by our financial institutions is very strikingly illustrated by the following figures:

Private short-term credit banks.

D a t e	Balance of credits granted in thousands of zlotys
December 31, 1925	615,365
December 31, 1926	784,358
December 31, 1927	1,324,093

The above figures do not embrace the Bank of Poland, communal banking institutions and co-operative credit societies.

Short-term Credits.

B a n k	Balance of short-term credits granted on	
	December 31, 1925	December 31, 1927
	in millions of zlotys	
National Economic Bank . .	203.0	255.6
State Agrarian Bank . . .	28.5	126.7 ¹⁾
Postal Savings Bank . . .	26.5	42.6
Total	258.0	424.9

A considerable increase in long-term credits can also be noted, this being shown by the following balances:

Long-term Credits.

B a n k	Balance of long-term credits granted on	
	December 31, 1925	December 31, 1927
National Economic Bank	218,400,000 zlotys	771,800,000 zlotys
State Agrarian Bank . .	100,000 gold francs	41,400,000 gold francs
Private long-term credit institutions (exclusive of converted pre-war credits)	2,500,000 " "	14,200,000 " "
	7,400,000 dollars	11,800,000 dollars

¹⁾ Approximate figures for June 30, 1927.

Building facilities

The improvement in credit conditions has assisted the financing by the Ministry of Finance of the building movement conducted in accordance with the Act relative to urban building schemes.

While the credits assigned to this purpose in 1925 and 1926 totalled only 49,900,496 zlotys, they rose to 104,000,000 zlotys during 1927 and the first two months of the current year.

The further financing of this movement has been checked by the attitude of the Seym Committee upon National Debts, which, for some reason incomprehensible to me, refused their signatures for the bonds of the Premium Loan, authorised by a decree of the President of the Republic dated March 6, 1928.

This movement, to whose development I attach great importance, lies, after all, in the interests of the very numerous homeless state employees and workmen.

Bank of Poland

The turning-point which has been passed in the monetary situation cannot properly be understood and appreciated without even a superficial review, of the many vicissitudes through which the Bank of Poland has passed.

Our bank of issue, founded on April 28, 1924, developed extremely favourably during the first year of its existence.

The gold and foreign exchange cover grew constantly, attaining on December 31, 1924, the total of 357.4 million zlotys, as compared with 249.9 million at the time the Bank was established.

This increase, coincident with an unfavourable trade balance, may be ascribed partly to the confidence

felt by the community in the currency reform and partly to the energetic action of the fiscal machine.

The situation, however, became worse in 1925, increasingly so month by month in spite of the proceeds of the Dillon and the Swedish loans (leasing out of the Match monopoly to a Swedish group), as a result of a continually adverse trade balance and of the policy of budget deficits.

A paradoxical situation existed on December 31, 1925, when the total of Treasury notes and token coins in circulation, issued to cover budget deficits, considerably exceeded that of the Bank of Poland notes, i. e. it had attained a figure of 434 million zlotys as against 381 million of Bank of Poland notes.

The cover of the Bank of Poland had on this date fallen to the level of 131 million zlotys.

This led inevitably to the rate of exchange of the zloty, which had already been shaken in August 1925, undergoing incalculable fluctuations.

The position continued to grow worse from the beginning of 1926, and a gradual change for the better became apparent only from June 1926.

Beginning with June 1926, the cover held by the Bank of Poland has continually increased, and attained on

December 31, 1926 . . .	the total of 264.2 million zlotys
September 30, 1927 . . .	" " " 404.5 " "
October 30, 1927 . . .	" " " 716.0 " "

when the conversion of the gold and foreign exchange reserves was effected according to the new parity on the last-named date.

The reserves of gold, and foreign currencies according to the balance sheet of November 10, 1927, which included the proceeds of the Stabilisation Loan, amounting to 549.3 million zlotys, totalled 1,303 million zlotys.

On December 31, 1927, this reserve amounted to 1,415 million zlotys and on February 29, 1928, the figure remained unchanged.

The Bank of Poland, in accordance with its Statute calculated the cover of banknotes in circulation (1,175.3 million zlotys on February 29, 1928) to be 70 per cent.

If, however, the entire reserve of gold and foreign currencies serving as cover for banknotes in circulation, (excluding demand liabilities) plus the reserves not serving as cover be compared with banknotes in circulation, we obtain a cover of 132 per cent.

If, further it be taken into consideration that, as a consequence of the Stabilisation Loan, the Bank of Poland has gained a currency credit of \$ 20,000,000 in the more important banks of issue of the world, and that Treasury notes will be entirely withdrawn from circulation, we must arrive at the conclusion that the Polish currency is established on an exceptionally firm basis.

I consider that this basis is unshakeable, as long as we continue to conduct an economical and cautious financial policy.

The increasing of the share capital of the Bank of Poland, which I have already mentioned whilst sum-contribute towards the strengthening of the basis of marising the Government's stabilisation plan, will also our currency.

The capital of the Bank of Poland (issued and reserve) amounts to 244,434,640 zlotys, an equivalent of over \$ 27,000,000 which constitutes quite a considerable amount under our present conditions.

The Bank of Poland can, in connexion with the increase of its cover, considerably extend its discount operations.

The bill-portfolio of the Bank of Poland has already grown from 321.4 million zlotys on December 31, 1926 to 456 million zlotys on December 31, 1927.

The possibilities of further development are very great, if it be taken into consideration that with the present state of its balance sheet, i. e. as on February 29, 1928, the Bank of Poland is authorised to increase the amount of its notes in circulation by 1,255 million zlotys.

This is one of the consequences of the Stabilisation Loan.

The policy of the Bank of Poland should develop, within statutory limits, along more liberal lines.

The economic reconstruction of Poland requires long years of painstaking and systematic efforts and in concluding this speech I must once again sound a warning against undue optimism.

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